Energy Insider by William Engdahl

Canada's strange oil politics: phase two

The deal between Trudeau and Alberta means that the winner of a provoked battle will be Petro-Canada.

Earlier this month, Canada's Pierre Trudeau struck a compromise with Peter Lougheed, premier of the western oil-producing province of Alberta. The deal, which runs until mid-1986, ends a year of intense political acrimony following Trudeau's 1980 shock announcement of his National Energy Program (NEP). But before we pop the champagne corks, the actual pact bears close scrutiny.

Recall that the NEP's initial terms imposed retroactive expropriation, without compensation, in the form of a 25 percent unearned interest in all federal lands which Petro-Canada, the government's oil company, has the right to pick up from private companies. Given that the Petro-Can corporation was created by one of the world's leading zero-growth zealots, Trilateral Commission member Maurice Strong, and is currently becoming one of the world's major oil companies with the assistance of Trilateral Commission member Donald Harvie as Petro-Can's deputy chairman, we have cause for suspicion.

Trudeau's NEP triggered a war with the oil-producing provinces by increasing the federal government's share of taxes; the provinces had traditionally controlled mineral and oil taxation. And it further mandated a policy of "Canadianizing" ownership of the oil industry to 50 percent by 1990.

The net effect of the NEP to date has been disastrous to energy exploration and development. Its restrictive price and tax provisions triggered an exodus of rigs and capital, mainly to greener pastures in the U.S. The number of active rigs dropped in half, from a historic high of 456 in August 1980 down to only 230 a year later. An estimated $3 billion followed the rigs out of the country. The ensuing decline in Canadian exploration could set development back by years.

Now, after a year of deliberate limbo, which forced many major companies to sell their Canadian holdings at depressed prices, Trudeau's alter ego, Energy Minister Marc LaLonde, has completed a very clever maneuver. The new agreement between Alberta and Ottawa creates a two-tiered price structure under which the price of "old" oil will incrementally rise from the current $18.75 a barrel with a $2.50 rise, effective Oct. 1, and a $4.50 rise in 1982 up to a maximum of 75 percent of the world price by 1986. "New" oil (discovered after Jan. 1, 1981) will be allowed to soar to approximately the world level next year. The federal tax rate on this higher-priced energy will rise from 8 percent of a dramatically higher absolute price to 16 percent. The total of the price increases over the five-year period will generate an estimated $212.8 billion to be divided between federal and provincial government and industry. Here lies the rub.

Robert Brawn, president of the Independent Petroleum Association of Canada, estimates that the actual after-tax breakdown will give the federal government 35 percent, the provincial government, 50 percent, and industry a meager 15 percent of the per-barrel price. New exploration, Brawn thinks, will be further complicated by the increase of operating costs and decrease of net-back to producers from 12 percent down to 4 percent by 1986. Brawn's calculation is that despite the higher price to the consumer, the revised NEP agreement will provide no net increase of cash flow to industry for further exploration. And with many independent producers highly leveraged and forced to borrow capital for drilling at 20 percent rates, only favored companies such as Petro-Canada will emerge as clear winners.

Since last October's initial NEP was issued, Petro-Canada has moved from number 12 among oil companies internationally to number 5. Canadian consumers paid 85 percent of the $1.5 billion cost when several months ago Petro-Can acquired ownership of the Belgian-owned Petrofina at a cost of $120 per share. Market price at the time of takeover was $60. Under the NEP, Petro-Canada's common-share capital increases from $500 million to $5.5 billion.

One major independent company has calculated that under such favored terms, Petro-Canada will control about 130 million net acres on Canada's oil-rich frontiers. As another industry source put it, "No company can effectively explore 130 million net exploration acres, and this gift to Petro-Canada will result in stagnation in our frontiers." But isn't that the point of Trudeau's NEP?